

News From

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New Approaches to International Trade

**Testimony by U.S. Senator Robert C. Byrd
before Trade Deficit Review Commission
February 24, 2000**

Mr. Chairman and Members of the Commission,

I am pleased to appear again before the Commission to give you a sense of my perception of your work and the changed international environment which you face. Let me say first, I am delighted that you have embarked on a vigorous hearing schedule. It is essential that the members of the Commission get the broad perspective which such hearings in different cities and regions will inevitably provide. The deficits which spawned the creation of this Commission have deepened in the months since its creation, and there does not appear to be any end in sight.

The Chairman has made a statement which focuses on the big picture, the macro effects of these deficits. Beyond the macro picture, of course, as the Chairman is well aware, are the specific mandates of the Commission to examine sectoral and bilateral trading partner issues, such as reciprocal market access questions, labor, environmental and health standards, and the impact of the WTO. I am pleased to see a focus on these important issues, like the health of our manufacturing base, the international prospects for our service sectors, the China problem, which you begin examining this very afternoon, and the persistent problems of agriculture, as well as multilateral questions such as NAFTA and the WTO. I am glad the Commission was represented in Seattle, which was a wakeup call to get back to ground reality before our trade debates degenerate into street demonstrations on a regular basis.

Mr. Chairman I would like to explore several issues with you this morning.

First this is a purely Congressional Commission. To be very blunt, its creation is a sign that Congress does not trust the Administration to formulate enlightened

national trade policies, and as a result, Congress is reasserting its constitutional role. That role is one in which the Congress was given by our framing fathers a rare and exclusive power to regulate Interstate and Foreign Commerce. Any and all power that the Executive branch has over such matters is temporary and by virtue of periodic grants of authority given to it by the Congress. If Congress does reassert its role, it will, by virtue of its constitutional power, be the new locus of establishing our trading policies in this era of so-called globalization.

Second, trade has displaced cold war military competition as the new varsity sport in Washington. As such, the intellectual powerhouses in the Senate who, over the decades, focused on the big issues of military power, alliance relations, arms control, security technologies and intelligence issues are now being enticed into the economic and trade arena. It has become an important new factor in our national life, of growing importance in our GNP. It has been on the back burner of the congressional agenda for so long that there is no major committee in the Senate whose main legislative responsibility is to thoroughly and regularly review trade matters. That situation may change rapidly. The possibility of a new so-called Fast Track authority, for example, whereby Congress reduces its constitutional authority for the convenience of trade policymakers in the Executive branch, is now in some doubt. The progress of the World Trade Organization in accumulating power at the expense of the Congress, and at the expense of the American people, was abruptly arrested in the streets of Seattle. Benign neglect of the trade arena, I hope, is now over.

That is the context in which this commission was created. A reading of the legislation authorizing and funding of the TDRC will reveal that its mandate is quite sweeping. It requires a fresh examination of the full range of bilateral and multilateral relations that are important to our nation. We want to know the causative factors in our trading imbalances, and what dangers are developing as a result of this unbalanced situation. Our goal should be to understand the interconnections between this economic reality and the restructuring of world power, not just economic power, but political and even the strategic and military power that it portends. This is not an academic game. The law requires your recommendations as to how those persistent, even structural, trading imbalances can be corrected. Your work has just begun — you have a busy six months ahead of you.

I will briefly mention four areas central to your mandate: institutional issues, the implications of Asian trade deficits, the World Trade Organization, and Trade in Services.

Institutional issues

I believe it is appropriate for the Commission to address the institutional framework in the federal government which has created and continues to support the policies which have lead to the huge deficits we are running with the rest of the world, in particular China and Japan. There can be little doubt that the lion's share of our continuing and growing deficits with Japan and China result from unfair trade practices. Japan has succeeded in keeping most of its marketplace closed to American goods and services, for decades, freely exporting into our market. Innumerable attempts to pry open their markets have failed. As tariff barriers have come down, other barriers have been erected making it extremely difficult to do business in Japan. It is apparently still very difficult for American financial services to gain a real foothold in Japan. This is all occurring even today despite the Japanese economy which is in a dire condition precisely because of its closed nature.

The Chinese, as well as the Koreans, have taken a leaf from the Japanese copybook. China's huge imbalances with us are growing, and access to their market is very grudgingly given, sector-by-sector, after painful, repeated negotiations. The results are more often than not agreements which are not properly implemented, or implemented at all by the Chinese. Yet, our Trade policy is to seek ever more agreements, ever more sweeping agreements, which are regularly hailed as breakthroughs in free trade. These achievements exist mainly in the realm of PR. The evidence that the Chinese will behave differently if they are given entry into the WTO is scanty at best.

If we really meant to defend American interests, we would have been far tougher long, long ago. The excuse was, during the cold war, that we had to put trade relations into second place behind alliance politics. The Japanese, of course, took full advantage of that set of priorities, achieving the protection of a military alliance at the same time they remained totally uncooperative on the trade front. We stood for it.

Now, gentlemen, the cold war can no longer serve as an excuse to sacrifice American economic interests to the protectionism, mercantilism, and manipulative behavior of our Asian trading partners.

Many of my colleagues are now waking up to the fact that economic factors are now predominant on the world stage. Military factors are taking a second place. This is a major shift in emphasis. Despite Congress' exclusive power to regulate foreign commerce, the Executive branch has built institutions which through persistence, big budgets and energetic bureaucrats, have wrested the focus on policymaking over to themselves. The Congress has, through benign neglect, given this erosion of de facto power scant notice, and has not built an internal institutional framework to exercise its constitutional authority in this area. There is certainly no other major constitutional power granted exclusively to the congress, which has been so completely abandoned by the Congress in the modern period.

The distinguished Senator from Montana, Mr. Baucus, has introduced legislation to create a new Trade Office in the Congress which would aggregate analytical power to inform the standing committees on questions of the international marketplace and the reality of the trade practices of the Administration. I think we certainly need some new mechanism in the Senate which is devoted exclusively to international economics and trade matters. In addition, I believe we should review the question of reorganizing the Department of Commerce into a new department of trade and commerce which would be charged with the effective implementation of trade agreements, something not now done by either the Executive Office of the Trade Representative or the Commerce Department. Your Commission could perform a service by organizing some research that examines the agreements our Trade Representatives have reached with our major Asian partners over the last 20 years, and evaluate how well they have actually been implemented.

One of the great shibboleths of the current vernacular is that international economic trends are not connected to political power. The theory seems to be that the world is drawing closer together, and politics is becoming obsolete. I do not believe that the Japanese or Chinese subscribe to one word of this fairy tale. Economic and political power to them are, as they should be to us, inseparable. Power abhors a vacuum, and the connections between economic activity and state power in this world are just as complete and strong as the earlier links behind military might and international political supremacy.

One of the great challenges to this Commission is the need to examine our deficits with our Asian partners through the prism of world politics in its newest form. I would note that testimony you will hear this afternoon indicates that Mr. Greenspan has raised the question of Chinese manipulation of economic influence through its financial holdings. The United States economy is growing in its vulnerability to pressure from the holders of foreign securities, foreigners who are financing the deficit. Why, in view of the history of the world, would one assume that this activity is benign, with no possibility of a manipulative strategy to gain leverage by China over the United States, to advance other Chinese goals and strategies. The latest belligerent rhetoric against Taiwan, with threats of military action, as well as recent writings by Chinese military officers about “financial war” with the U.S., are indicative of an aggressive and difficult mindset by elements of the Chinese regime.

John F. Kennedy wrote a book half a century ago entitled Why England Slept. I believe we are in the middle of an era where we are being beguiled to sleep through fanciful theories that power politics in this world is no longer the proper prism to analyze key events. While the Commission is to look into the trade deficit, it is certainly important for you also to consider the conscious behavior of other nations as a causative factor in piling up these deficits. That is part of your mandate.

It would be peculiar and inexplicable if the commission were silent on U.S. Chinese relations as seen through the optic of the huge and growing trade imbalance. The statutory mandate of the commission was purposefully constructed for you to examine this question, as well as the comparable Japanese situation. The suspicion is growing that maintenance of these deficits is essential to the propping up of a Chinese dictatorship highly dependent on economic growth for its survival. There are those who maintain that, despite our free trade mantra, the Chinese do not share it, will not permit their market to be opened significantly, and will only appear to cooperate with us in negotiating limited coastal **sectoral** openings so long as the huge imbalance is maintained. The argument goes that they would slam the door on all of these market opening initiatives in the absence of the growth-enhancing imbalances.

The fundamental question is whether we have the courage to insist on the performance of already signed agreements with the Chinese before permitting their entrance into the WTO or granting MFN trade status. During the cold war, it would have been unthinkable to enter into arms control negotiations with the

Soviets, for instance, without assurances, verifiable assurances, that they were complying with agreements already consummated. This was always a central element of the debate. Secretary Rumsfeld probably dealt with the issue of Soviet compliance on more occasions than he cares to remember in approaching that regime. The only reason, I presume, that we would not care about Chinese compliance with trade agreements is that we ourselves do not regard those agreements seriously. If we did, performance and compliance would be a precondition at every new stage of negotiations. Will the Commission conclude that the size of the Chinese deficits, the nature of the regime, and the economic vulnerability that we might be subjected to are not of sufficient import to recommend some action? Do we dare, as a nation, reduce our leverage in our relationship with China once she is allowed to hide behind the multilateral, secret walls of the WTO, given what we know about the Chinese today? That is a question worthy of examination by this Commission.

The answers to these difficult questions will be invaluable in assisting Congress and the Administration in our job to fashion responsible trade policies which benefit the standard of living of our people and the well being of our industries, and, indeed, our fundamental economic national security.

The World Trade Organization

Does the question of US participation in the WTO bear on our trade deficits? The statute asks you to examine “any effect that international trade.. .agreements may have on United States competitiveness.” Does compliance with WTO mandates affect our ability to restructure the imbalances we have with our trading partners on either an overall bilateral basis or on a sectoral basis? Let’s take the artificial inducements that Canada has put into place to literally steal the American television and film production industry away from the lower 48 states. Does it violate WTO rules for us to grant subsidies to our entertainment business to counter the attack by the Canadian government? Or do we have to wait for some dispute resolution panel in Geneva to act? Am I right to suspect that unilateral actions by the Congress to respond to an attack by a foreign government on one of our industries would be declared unlawful? What does that indicate about the reality of our national sovereignty? I would welcome the Commission’s views on that question.

Trade in Services

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Lastly, what is the future in trade in services? How big is the potential services market and what are the nature of the barriers it faces? It is the service sector where the rubber of the so-called free trade wheel must meet the road of foreign sovereignties. What are the projections of the Commission in this regard? What are the recommendations for bilateral actions, or for legislative actions to ensure robust access to foreign markets?

I am looking forward to the fruit of your labors. This is a rare opportunity to reconsider our national direction on trade to be sure it conforms to our long-term national interests. I hope that you will take full advantage of the time remaining to digest your hearings, get some good research done, and write a hard-hitting and comprehensive report with some meaty recommendations.